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# Sustainable Development after Demonetization

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**ABSTRACT:** Demonetization is a memorable move of government to restrain shadow economy in the country. Demonetization almost affects every Indian citizen as 86.4% cash in circulation in the form of 500 and 1000 rupee notes has been withdrawn by the government. Its influence has shown on real estate, gold, service sector, agriculture sector, small business units and GDP growth of country etc. According to the economic survey for 2016-17 India's GDP growth rate is predicted to be reduced by 0.25-0.5% during this year. The short run negative impact was also shown on every working sections of the society. After demonetization E-banking gained importance in the country. Low availability of cash opens the door for digital transactions in India. Digital transactions have grown up by 250% after 8 November; 2016. It is a progressive shift towards cashless economy which serves one of the motives behind demonetization policy of government.

**KEYWORDS:** demonetization, government, sector, transactions, economy, country, cashless, circulation, E-banking

## I. INTRODUCTION

The use of digital money has become widespread with astonishing spread all over the country, particularly after demonetization. At the phase of pre-demonetization the entire country used physical cash for their day to day transactions, but after demonetization, the use of digital money increased drastically. <sup>1</sup>Digital money was used mostly in urban areas in the form of e-wallets where banks acted as intermediary. Demonetization is an economic policy that was implemented by the Government of India in which 500 and 1000 rupee notes were eliminated from its legal tender and a new 500 and 2000 rupee note was introduced. This policy was taken by the Government to go towards Cashless Economy. Through the introduction of this policy, it has helped Government in many ways such as curbing black money, stopping terrorist funding and has also increased the revenue to the Government. The use of digital money has increased after demonetization in which people were forced to store their money in their bank accounts which helped them transact at less cost and safety, also helped the Government to track their income where banks played a major role in it. This paper studies the impact of digital money post demonetization on the Indian Economy. <sup>2</sup> A lot of things changed in the country when Narendra Modi took over as the Prime Minister of India. He came in as a beacon of hope to the youth of the country who were expecting him to bring in changes in the economy, creation of jobs, and improvement in the lifestyle of Indians. A lot of prominent steps taken by Narendra Modi like 'Make in India' and 'Swacch Bharat Abhiyan' have been lauded by the youth of the country. His push towards Digital India too is being appreciated. <sup>3</sup>

One particular exercise undertaken by the Government of India that created ripples across the nation was 'Demonetisation'. What the government aimed at doing with demonetisation was to curb black money, arrest the fake notes in circulation, increase digital transactions, and stop terror financing. However, the data released by the Reserve Bank of India (RBI) seems to suggest that hardly any black money was recovered through demonetization. According to RBI's annual report for 2017-18, 99.3 percent of the demonetised Rs 500 and Rs 1000 notes have been returned to the central bank. This means that almost all of the Rs 15.42 lakh crore that was in circulation came back to the banks and only Rs 13,000 crore was demonetized. <sup>4</sup>

Soon after this data was released, P Chidambaram of the Congress party released a few statements through Twitter. "Every rupee of the Rs 15.42 lakh crore (barring a small sum of Ra 13,000 crore) has come back to the RBI. Remember who had said that Rs 3 lakh crore will not come back and that will be a gain for the government!?" he said. The politician, who was the finance minister during the Congress regime, also said that along with the loss of lives and lakhs of jobs, 15 crore daily wage workers lost their employment for several weeks and thousand SME units were shut

down. “Indian economy lost 1.5 percent of GDP in terms of growth. That alone was a loss of Rs 2.25 lakh crore a year,” he added in a series of tweets.<sup>5</sup>

Although, the demonetization exercise induced a cash crunch, which did provide the much needed push towards digitization. People increasingly downloaded apps of digital wallet companies like Paytm and Mobiquik for the liquidity of cash had reduced greatly in the market. In 2017, Paytm became India’s first payment app to cross over 100 million app downloads. After demonetization, Paytm integrated the BHIM UPI to increase its user base. Shortly after that, Paytm touched a new record of 70 lakh transactions. Also, Paytm announced in January 2017 that the mobile wallet company had clocked Rs 5,000 crore worth of transactions, which meant 200 million transactions in terms of volume. The company is now reaching new heights constantly by introducing new products like Paytm Cloud and forming new partnerships like the one with Berkshire Hathaway.<sup>6</sup>

Nevertheless, Paytm does not like to be recognized as the single largest beneficiary of the demonetization phenomenon. “It is very odd for us to believe that we were the single largest beneficiary when it (demonetisation) was going on. There is no doubt that digitisation won over the industry, it won over the banking ecosystem,” said Paytm founder Vijay Shekhar in a media event, according to Financial Express.

BJP too has quickly defended this new development saying the demonetisation exercise wasn’t entirely futile. Amit Malviya, BJP’s National in-charge of Information and Technology, while terming the judgments being passed on the move as ‘ill informed’ and ‘inappropriate’- has posted a report saying demonetisation has done the following:

1. Thrown light on people who were depositing high amounts of cash but were not filing Income Tax.
2. Large amount of money returned to the system resulting in the ‘cleansing’ of the economy.
3. 5 lakh people deposited 33 percent of the total cash that ultimately lead to increase in IT returns from 3.85 crore in 2013-14 to 6.85 crore in 2017-18.
4. Formalization of digitization of economy.
5. Identification of a lot of shell companies.<sup>7</sup>

Demonetisation was supposed to drive out “black money”, either by encouraging black money-holders to give up their holdings, or through detection by the tax authorities once the cash was deposited in the banking system. Data from the Reserve Bank of India has now shown that this failed, backed up by observations at the micro level.<sup>8</sup>

While the narrative was that people had to queue for days to deposit notes in banks, and this is partly true, field observations also reveal that old notes went on circulating very intensively: huge amounts of cash were disseminated by black money-holders into a myriad of networks, the ultimate objective being to sub-contract the deposit of non-taxable small amounts, often through a long chain of intermediaries. Both the strength and plasticity of informal networks have allowed cash holders to get rid of their old notes quite easily, using a range of tactics and social relations. Furthermore, although recycling old cash had a cost, but often lower than taxation, many black money-holders had been able to use demonetisation as an opportunity to broaden their clientele or discover new market niches. For instance, an entrepreneur specialising in recycling gunny bags has invested in a construction company. Demonetisation also strengthened pre-existing business relations, allowed to build new ones, or to set up new projects. Some trader networks even used the demonetisation to boost their sales by accepting old cash, while using their network to recycle it.<sup>9</sup>

## II. DISCUSSION

Demonetisation, by forcing people to deposit their holdings in bank accounts and in line with a number of measures over the past decade, was also supposed to promote bank savings, especially among the poor. Mutual distrust between bankers and villagers, especially among the most marginalised, was already tangible before the demonetisation. The many difficulties rural banks faced in delivering cash during the demonetisation obviously heightened such mistrust. This was even more pronounced among women and Dalits, often badly treated by bankers. During demonetisation, and for more than three months, the scarcity of cash significantly slowed down the economy. According to various estimates, the Indian economy lost 0.5 points of growth as a direct result. Despite the shortage of new banknotes, many economic transactions continued on the basis of mutual trust and credit, through deferred wage

payments and consumer good purchases on credit. Delayed payments, which affected castes unequally, in turn reinforced informal channels of wage payments, such as wage advances, rather than formalising them.<sup>10</sup>

In Tamil Nadu, many workers are seasonal migrants in cane cutting and brick moulding. They are used to receiving large wage advances that are distributed during the off-season.

Advances on wages after demonetisation were mostly received by lower castes working in brick kilns, where employers tried to use this as an opportunity to get rid of part of their old cash surplus. Labour intermediaries, usually in charge of distributing advances and managing labourers, had to negotiate with workers. Some families accepted the old cash, deposited it slowly in the bank to avoid any suspicion, and withdrew it slowly. Given the liquidity scarcity all the rural banks faced, they had to go there many times in vain, spending considerable time and money to convert their employers' old – and certainly black – cash. While interpersonal networks have been instrumental in coping with the shock of demonetisation, not all households were equally equipped to do so.<sup>11</sup>

Interpersonal relationships of gender and caste have partially helped mitigate the harmful effects of demonetisation, but excluding those households without anyone to count on. Monetary surplus were injected into networks through gifts, loans, or wage advances. In fact, saving is first and foremost relational, taking the form of investment “in people”. Ceremonial gifts are a good example: people regularly contribute to ceremonies in their circles, which are subsequently reciprocated at their own ceremonies and are thus considered as saving. The nature of these networks is highly diverse. Some are clearly based on hierarchy, meaning on caste, patriarchy or social class, and any new loan or wage advance strengthens the borrower's inferiority, whether through high interest payments, free services or new features of labour bondage. Other financial transactions are instead based on solidarity and reciprocity, expressing the so-called redistributive nature of interpersonal networks, and are most often found within caste and kin.<sup>12</sup>

Hence what really seemed to have happened, instead of a clear movement toward more formalised economic transactions, has rather been a reinforcement of the informal economy, which is the very thing that allowed actors to temper the violence and harmful consequences of the shock. The policy implications of this finding are crucial. It is fully justified to think about measures for formalising the economy, but to expect that technology – through bank and the digitalisation of payments – could solve poverty and lack of protection is an illusion.

In Europe, bancarisation emerged at the same time as social protection, but it did not come first, and was absolutely not the fundamental cause of social protection. In present-day discourse on digitalisation, the link to formalisation often remains elusive, as if it were automatic. Yet formalisation requires much more than transparency of payment. While cashless policies flourish in various parts of the world, we believe our findings have major implications, and seriously question the merit of such policies, especially for the most marginalised segments of the population.<sup>13</sup>

### III. RESULTS

“Ever since demonetisation, business has been so bad that half the vendors in the market have shut shop,” Pradhan told Al Jazeera. “This market hardly gets customer traffic after 11am these days. Having made money from this small business for the past 35 years, I may have to shut down, too.”

Pradhan is one of the millions of people in India who work without a formal employment contract, making up the so-called informal economy. The International Labour Organization estimates that more than eight out of 10 people who are not employed in agriculture work in the informal economy.<sup>14</sup>

Analysts say Modi's financial reforms hit people in the informal sector – who are also among India's poorest – particularly hard. Ironically, the poor were also among his main campaign targets in the country's recent general elections, which his Bharatiya Janata Party (BJP) won decisively.

“Most commentators failed to notice that the BJP and the Indian bureaucracy almost flawlessly delivered on a number of initiatives that make the life of the poor and vulnerable better,” Kunjal Gala, co-portfolio manager at Hermes Investment Management, said in a research note.

Some of those initiatives included universal access to bank accounts, the provision of cooking gas and sanitation facilities, and rural electrification programmes.

Supporters of demonetisation and the GST say the reforms are helping to reduce corruption and will benefit the economy in the long term.<sup>15</sup>

Tax compliance leads to higher revenues, reduction of budget deficits and money collected is spent on infrastructure, social-sector and the rural areas. This benefits India's poor."But the government's latest budget projects that its deficit will increase both in actual monetary terms and as a percentage of the size of the Indian economy. And just as Indians were recovering from demonetisation, the government implemented the GST in July 2017, something that Gautam Chikermane, an economist and vice president of the Observer Research Foundation, an economic think-tank, describes as the "most ambitious but one of the most complex tax reforms in history". Small businesses appear to have been adversely affected by the taxes in a disproportionate way. According to a study by the Reserve Bank of India, the central bank, the introduction of the GST has resulted in higher operating costs for most small and medium-sized firms and the informal sector, including farm workers and mom-and-pop store owners. And this has prevented them from achieving their full potential.

A very large part of the informal sector depends on cash transactions for sustenance," said Mahesh Vyas, managing director of the Centre for Monitoring Indian Economy (CMIE), a research firm. "With demonetisation and the subsequent GST sucking out a very large amount of cash from the economy, almost everyone in the informal sector was severely harmed because the business was disrupted and the entire supply chain was derailed," Vyas told Al Jazeera. He estimates that about 12 million people were immediately affected by the note ban, and that even after the introduction of the replacement notes, 3.3 million people permanently lost their livelihoods. Vyas says small businesses were even more adversely affected by the GST. According to the CMIE, 10 million people lost their jobs in 2018 out of a workforce of more than 400 million people nationwide.<sup>16</sup>

Jimmy Pauli Malaikall, the owner of a Mumbai-based small-scale chemicals maker and an official of the Chamber of Small Industries Association, which represents more than 25,000 businesses across India, says Modi's financial reforms have resulted in "large-scale unemployment". "About 30 percent of the association's members have shut shop and almost every day on its message board, the association finds inserts from members seeking to either sell or rent out their businesses," he told Al Jazeera. India's unemployment rate stood at 3.5 percent or at 18.3 million as of 2017. After initially denying a leaked confidential report showing that unemployment was at a 45-year high of 6.1 percent between July 2017 and June 2018, the government confirmed the figure.<sup>17</sup>

#### IV. CONCLUSIONS

Sustainable development in India encompasses a variety of development schemes in social, cleantech (clean energy, clean water and sustainable agriculture) and human resources segments, having caught the attention of both Central and State governments and also public and private sectors. In fact, India is expected to begin the greening of its national income accounting, making depletion in natural resources wealth a key component in its measurement of gross domestic product (GDP). India's sustained efforts towards reducing greenhouse gases (GHG) will ensure that the country's per capita emission of GHG will continue to be low until 2030-31, and it is estimated that the per capita emission in 2031 will be lower than per capita global emission of GHG in 2005, according to a new study.<sup>18</sup> Even in 2031, India's per capita GHG emissions would stay under four tonnes of CO<sub>2</sub>, which is lower than the global per capita emission of 4.22 tonnes of CO<sub>2</sub> in 2005. The number of carbon credits issued for emission reduction projects in India is set to triple to 246 million by December 2012 from 72 million in November 2009, according to a CRISIL Research study. This will cement India's second position in the global carbon credits market (technically called Certified Emission Reduction units or CERs). The growth in CER issuance will be driven by capacity additions in the renewable energy sector and by the eligibility of more renewable energy projects to issue CERs. Consequently, the share of renewable energy projects in Indian CERs will increase to 31 per cent.<sup>19</sup>

CRISIL Research expects India's renewable energy capacity to increase to 20,000 megawatt (MW) by December 2012, from the current 15,542 MW. The contribution of renewable energy to the power business in India has now reached 70 per cent, compared to 10 per cent in 2000, in terms of project numbers and dollar value, according to Anita George,

Regional Industry Director, Asia Infrastructure and Natural Resources, International Finance Corporation (IFC). Growth in use of green technologies has put India on the green-building leader board with countries such as the US. "About 2-3 per cent of all construction in India is green, as good as (in) the US. In the next two or three years, we want to bring it up to 10 per cent, which will put us on top," as per the Indian Green Building Council (IGBC). The US\$ 1.79 billion Indian lighting market is estimated to be growing at 18 per cent annually and switching rapidly to energy-efficient systems. In value terms, about US\$ 425.58 million of the current market size belongs to the compact fluorescent lamp (CFL), according to Electrical Lamp and Component Manufacturers' Association of India (ELCOMA) statistics.<sup>20</sup>

On the back of the incentive package for electric vehicles announced by the Ministry of New and Renewable Energy, average monthly sales of electric two-wheelers has risen 20 per cent, according to Sohinder Gill, Director, Society of Manufacturers of Electric Vehicles.<sup>21</sup>

Backing the 'polluter must pay' principle to deal with the issue of residual pollution, Prime Minister Dr Manmohan Singh has endorsed proper enforcement of regulatory standards to prevent green damage.<sup>22</sup> He also inaugurated the 'Delhi Sustainable Development Summit' (DSDS), organised by The Energy and Resource Institute (TERI), on February 3, 2011. National Aluminium Company Limited (NALCO), the Navratna PSU, under the Union Ministry of Mines, Govt. of India, has become the first PSU in the country by implementing a pilot-cum-demonstration project on Carbon Sequestration in its captive power plant at Angul. The project is expected to go a long way towards addressing the issue of bringing down GHG, a NALCO spokesperson said. Currently, India has 18,655 MW of installed renewable energy, accounting for a total of 11 per cent of the total capacity of 168,954 MW. The target includes adding 20,000 MW of solar energy by 2020, which would take the share of renewable energy in the total electricity generation capacity of the country to 15 per cent, said Dr Arun Tripathi, a director and a scientist at the ministry. He added that the Indian government's goal is that renewable energy should account for 30 per cent share of the total electricity capacity by 2032.<sup>22</sup>

India expects investments to the tune of US\$ 55 billion by 2015 in the renewable energy sector which is expected to produce 35 giga watt (GW) of power, according to Mr Debashish Majumdar, Chairman and Managing Director, Indian Renewable Energy Development Agency Ltd (IREDA). According to a recent study on India attractiveness survey by Ernst & Young, Foreign Direct Investment (FDI) in Renewable Energy in India witnessed a 105 per cent rise. Wind energy is the fastest growing renewable energy sector and the FDI inflow in the sector has been increasing over the years. Private equity investment in renewable energy sector picked up pace in the country from 2004.<sup>23</sup> According to a report by 3i Network – IDFC, from a private equity investment of US\$ 851 million in 2005, inflows into the renewable sector in India soared to US\$ 2,136 million in 2008. Separately, a study by the World Resources Institute recently estimated a renewable energy market of over US\$ 2 billion a year in India. Independent Power Producers (IPPs) in this sector appear to provide attractive investment opportunity for private equity funds as a result of policy and regulatory developments such as generation-based tariffs, renewable energy tariffs and the national solar mission. Companies such as Auro Mira Energy, Greenko, Orient Green Power and Green Infra have been cited in the report as some of the IPPs which received funding from investors such as IDFC PE, Axis PE, Baring PE and Global Environment Fund.<sup>24</sup> With the proposed commissioning of a 50 MW tidal power project off the coast of Gujarat in 2013, India is ready to place its first "seamark" that will be a first for Asia as well. London-based marine energy developer Atlantis Resources Corporation, along with Gujarat Power Corporation Ltd, has signed a memorandum of understanding (MoU) with the Gujarat government to start this project.<sup>25,26</sup>

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